



## AozoraStep Capital LLP

A UK focused Value Investment Partnership

[www.aozorastep.com](http://www.aozorastep.com)

[david@aozorastep.com](mailto:david@aozorastep.com)

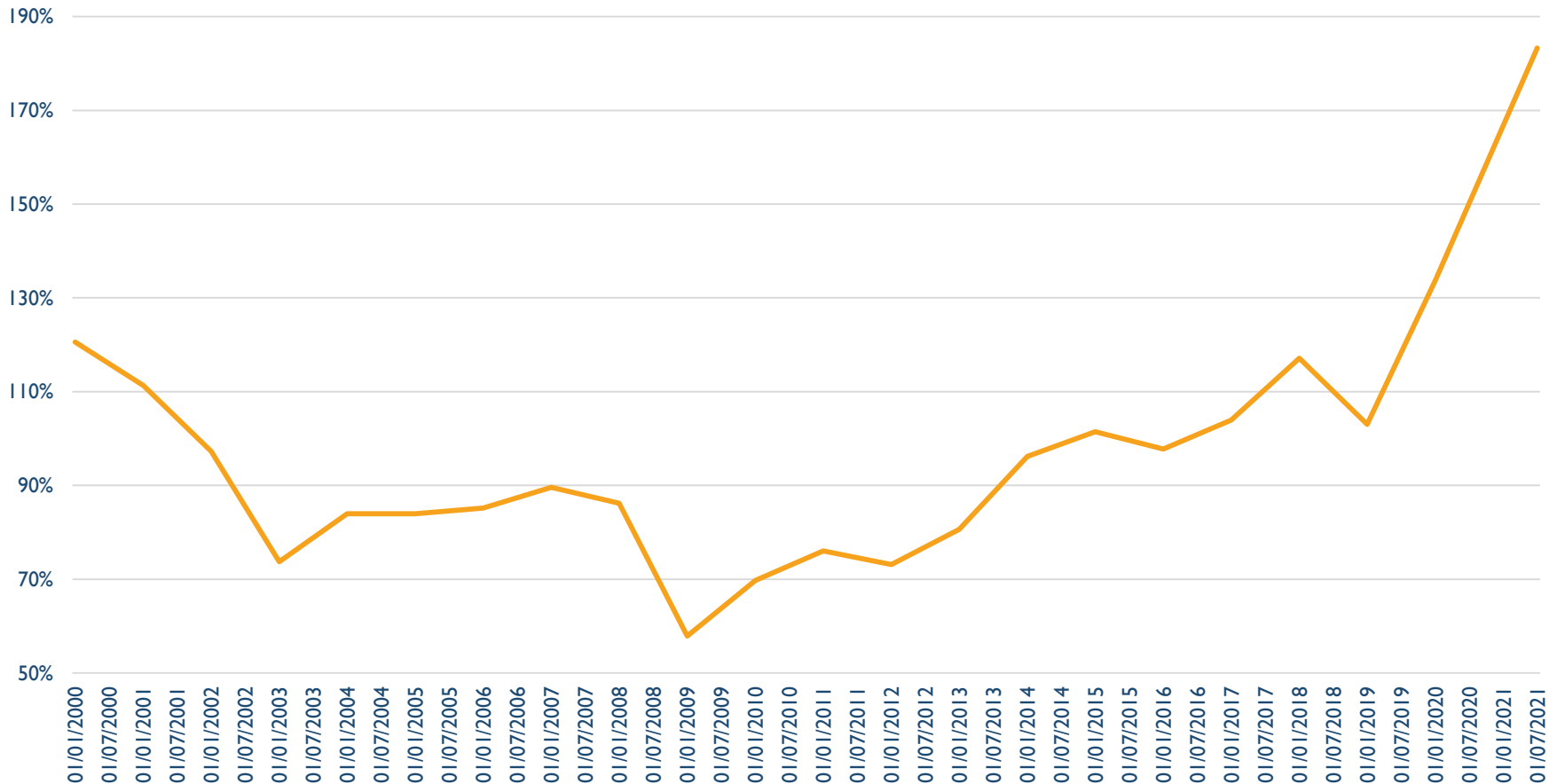
# CURRENT MARKET CONDITIONS

1. Historic comparison: Stretched valuations & US yield curve
2. Economic data: June inflation prints
3. Key market concern: Delta variant
4. Where to find value

# 1. HISTORIC COMPARISON: STRETCHED VALUATIONS & US YIELD CURVE

# HISTORIC COMPARISONS – US EQUITY VALUATIONS

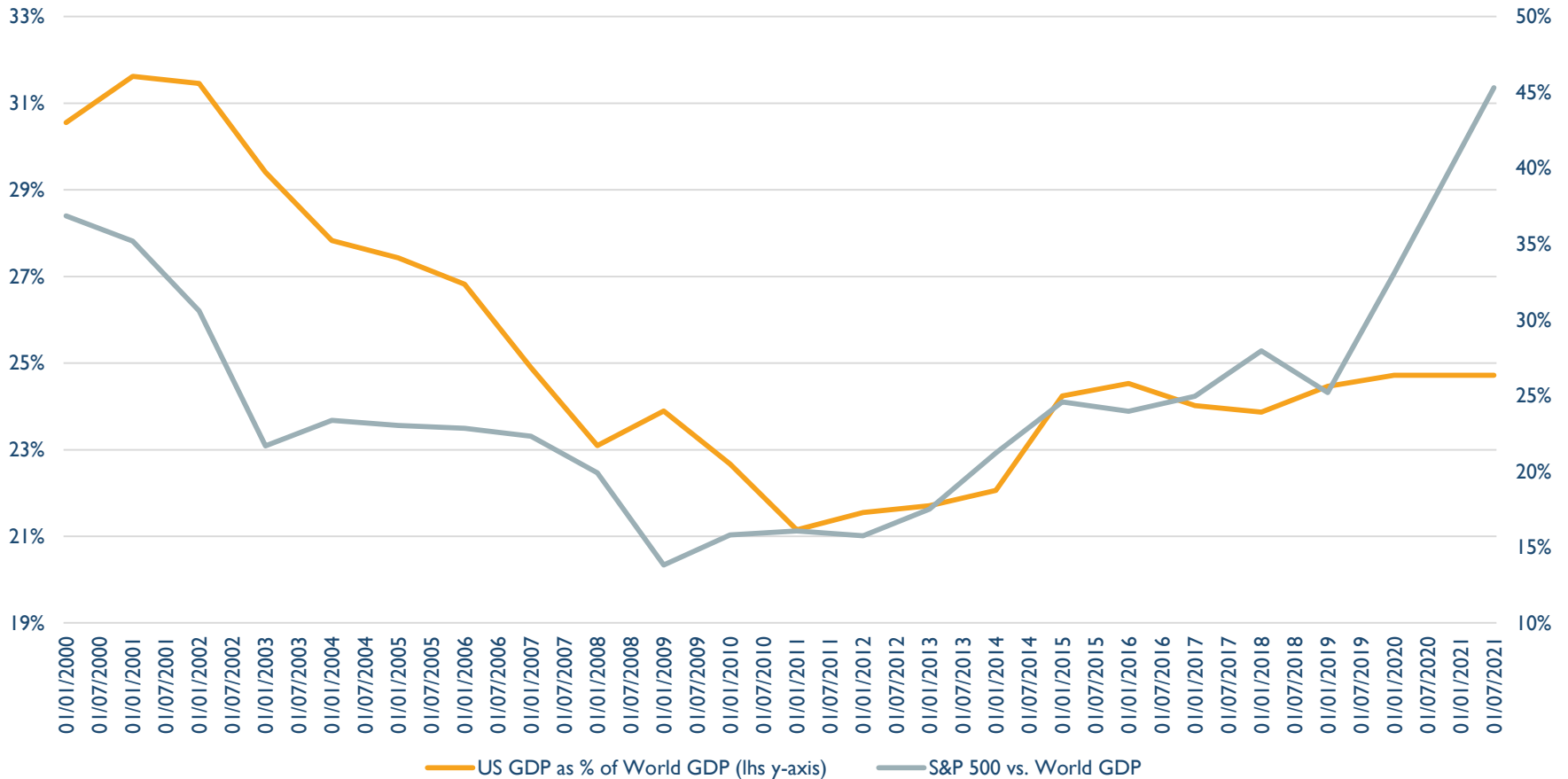
S&P 500 as % of US GDP



Source: FRED St. Louis, Bloomberg

# HISTORIC COMPARISONS – US EQUITY VALUATIONS

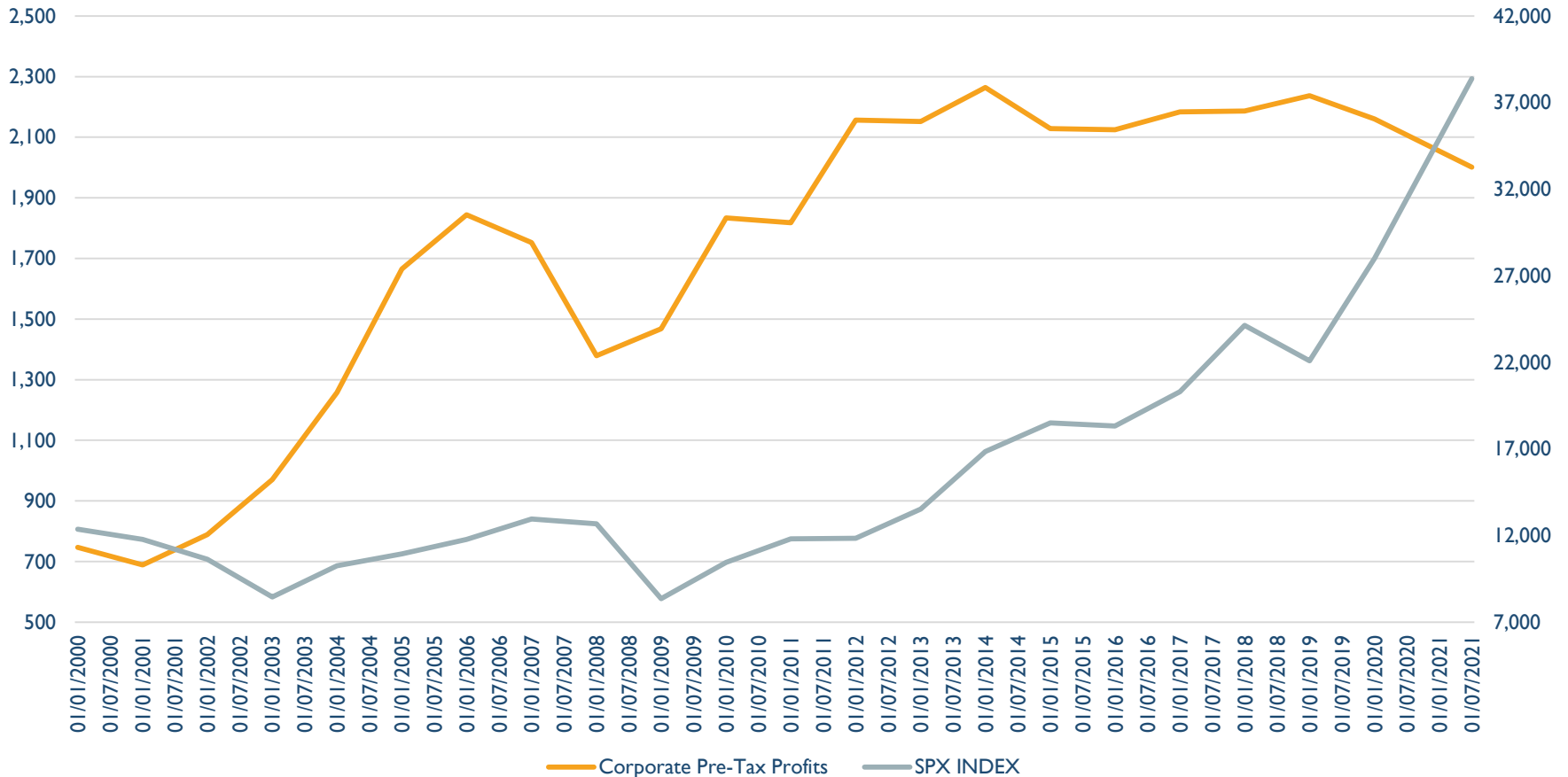
US equities take larger share of world GDP



Source: FRED St. Louis, Bloomberg

# HISTORIC COMPARISONS – US EQUITY VALUATIONS

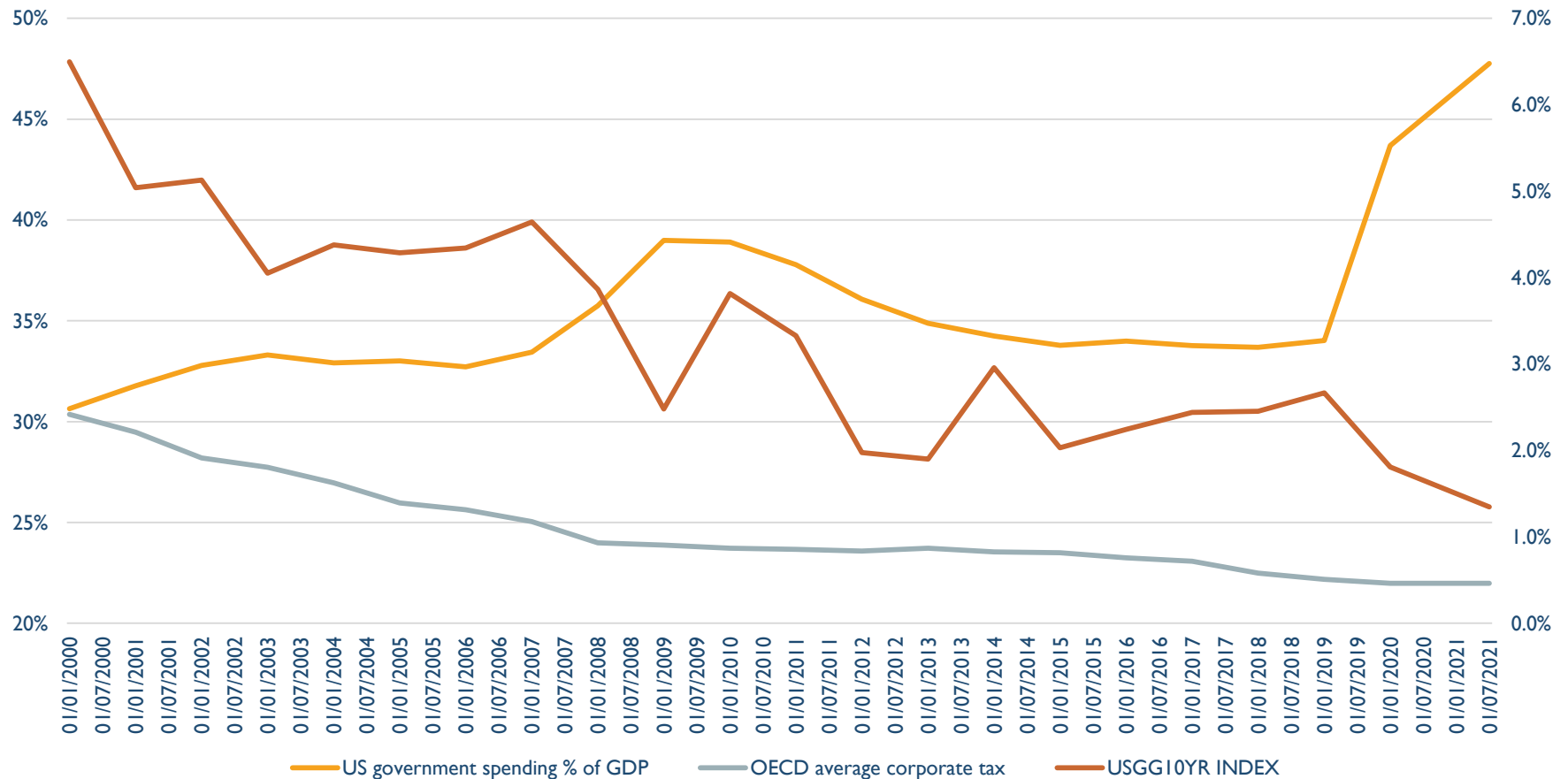
All US Corporate Pre-Tax Profits vs. S&P 500 (rhs y-axis) in bn \$



Source: FRED St. Louis, Bloomberg

# HISTORIC COMPARISONS – US EQUITY VALUATIONS

US government spending takes larger % of overall GDP



Source: OECD, FRED St. Louis, Bloomberg

# HISTORIC COMPARISONS – US EQUITY VALUATIONS

Company	Market cap in \$ mio	Net income in \$ mio (FY20)
APPLE INC	2,442,902	57,411
MICROSOFT CORP	2,114,490	44,281
AMAZON.COM INC	1,802,266	21,331
ALPHABET INC-CL A	1,735,601	40,269
FACEBOOK INC-CLASS A	967,347	29,146
BERKSHIRE HATHAWAY INC-CL B	635,080	42,521
TESLA INC	620,597	721
VISA INC-CLASS A SHARES	547,252	10,866
JPMORGAN CHASE & CO	459,851	29,131
NVIDIA CORP	452,572	4,332
<b>All Top 10</b>	<b>11,777,958</b>	<b>280,009</b>
<b>Remaining 490</b>	<b>27,413,011</b>	<b>598,474</b>

Source: Bloomberg as of 16<sup>th</sup> July 2021

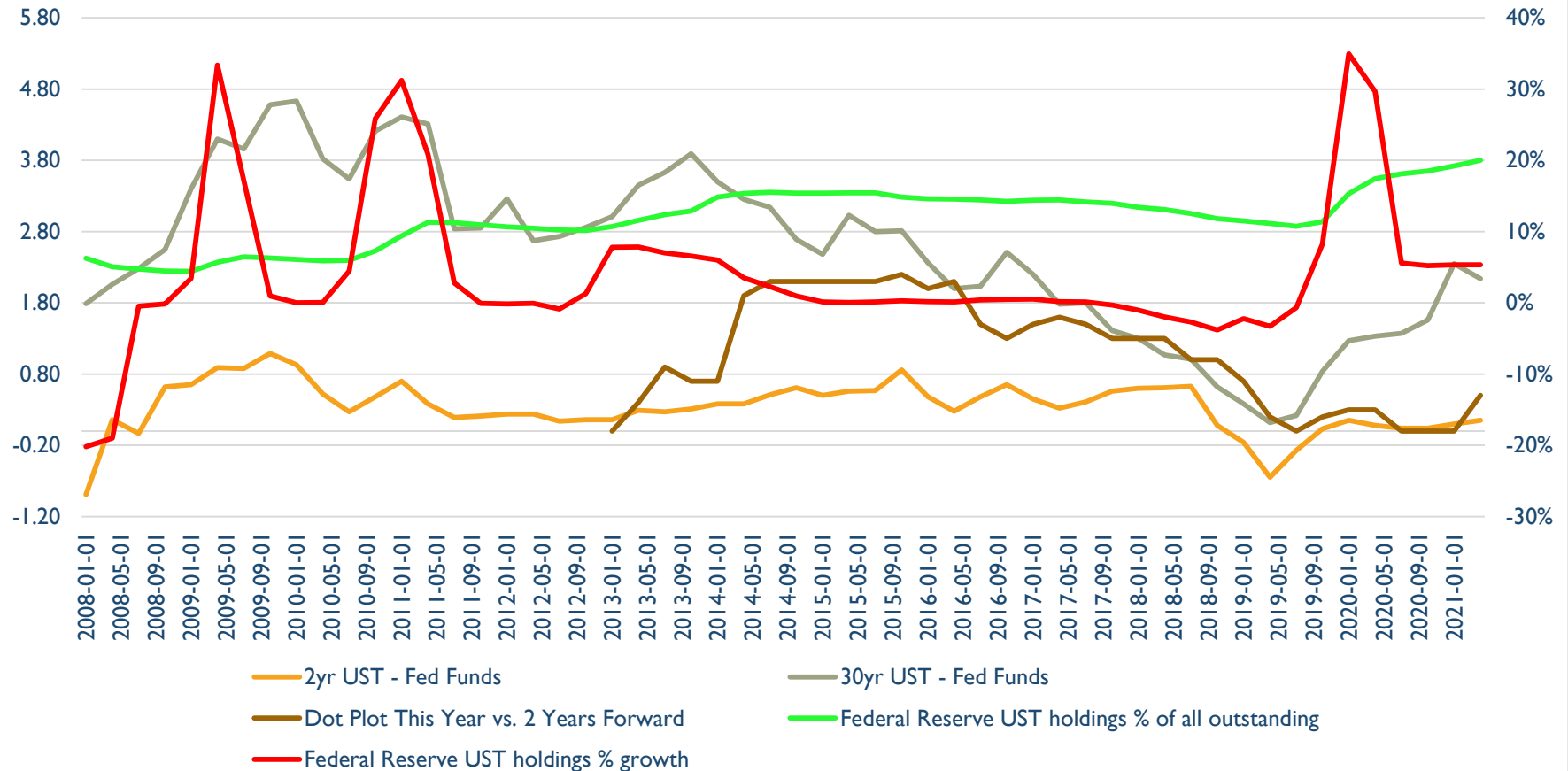


# HISTORIC COMPARISONS – YIELD CURVE FLATTENING

- 2013/14 tapering period is looking the most similar to current scenario
- 1. Fed asset purchases grew at a similar pace as today
- 2. The Dot Plot increased by 40bps two-year forward
- 3. The FOMC began talking about tapering asset purchases
- 4. The usage of the Overnight Reverse Repo Facility increased from zero to nearly 10% of all Federal Reserve Assets, indicating excess liquidity in the system
- 5. The prior six months were a period of fast UST yield curve steepening

# HISTORIC COMPARISONS – YIELD CURVE FLATTENING

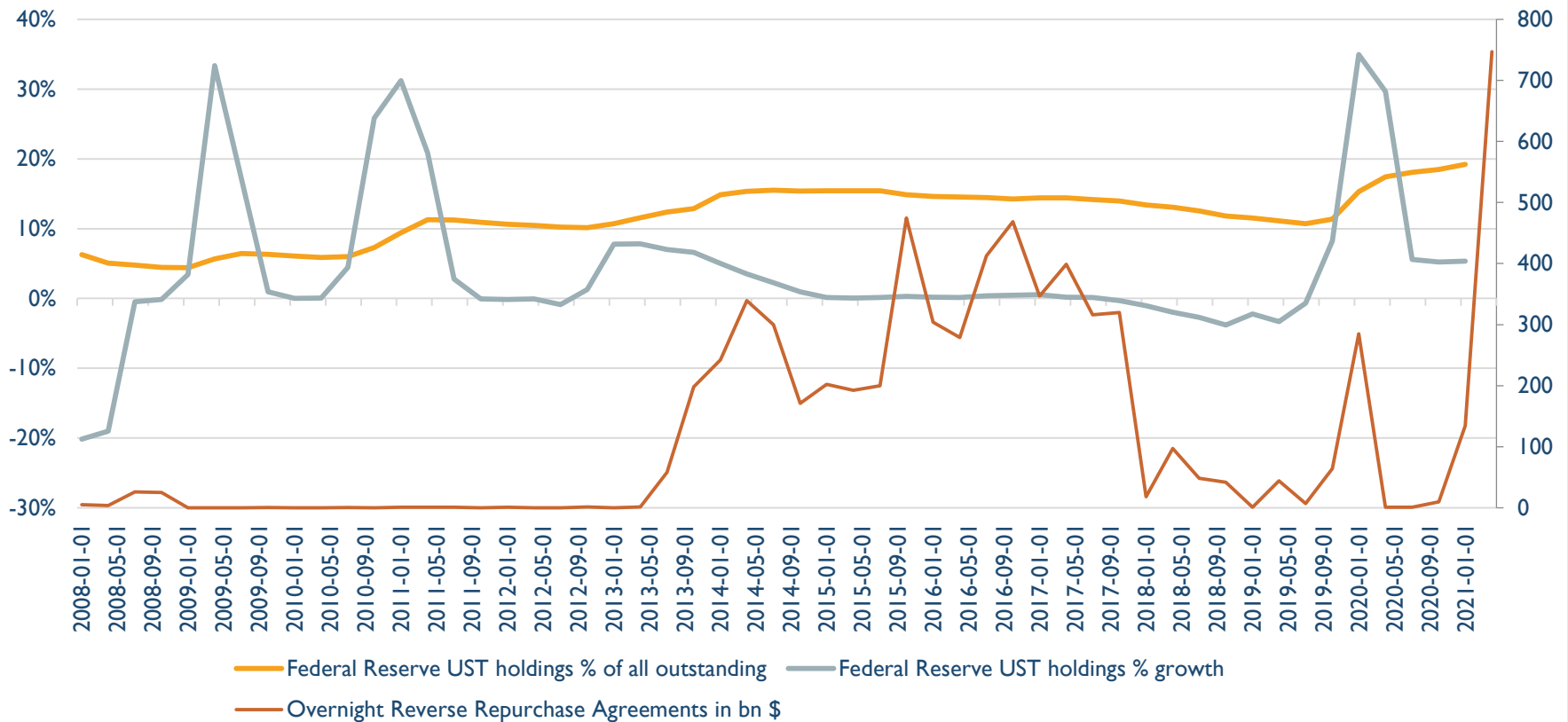
Yield Curve vs. Fed Asset Purchases



Source: SIFMA, FOMC, FRED St. Louis

# HISTORIC COMPARISONS – YIELD CURVE FLATTENING

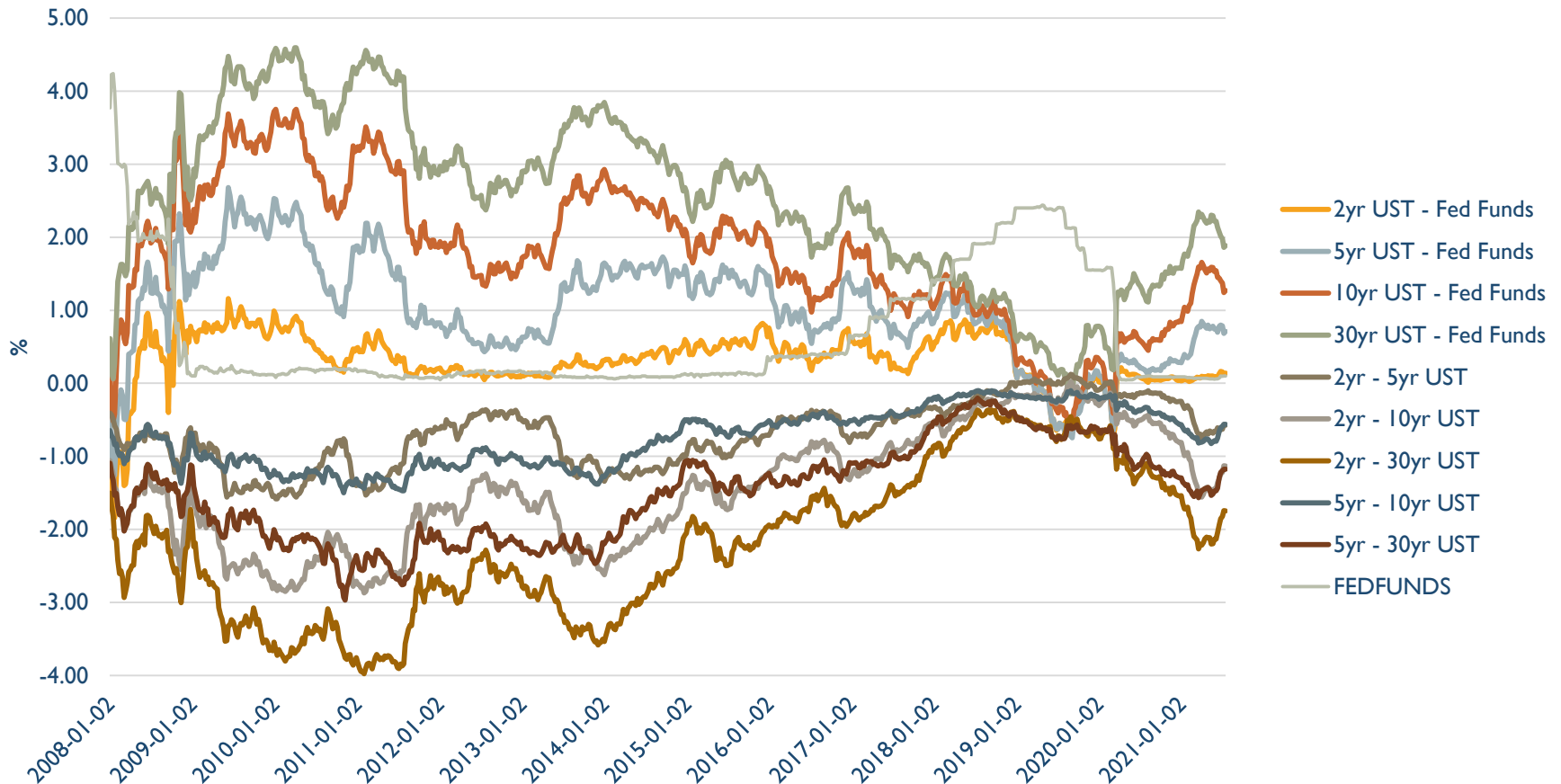
Federal Reserve increases its UST holdings quarterly by 5% - similar to what they've done in 2013



Source: SIFMA, FOMC, FRED St. Louis

# HISTORIC COMPARISONS – YIELD CURVE FLATTENING

US yield curve dynamics from 2008



Source: FRED St. Louis

## 2. ECONOMIC DATA: JUNE INFLATION PRINTS

# INFLATION – US CPI “DEJA VU”?

## +0.6% May 2021 CPI Print

### Biggest drivers:

- +7.3% used cars (3% weight)
- +1.6% new vehicles (3.7% weight)
- +12.1% car rental (0.18% wgt), +16.2% April
- +7.0% airline fares (0.7% weight)

- +1.5% transportation services (5.2% wgt)
- +1.2% apparel (2.7% weight)
- +0% energy (6.9% weight)

### Biggest laggards:

- 0% energy as fuel increase offset by decrease in gasoline (6.9% weight)

## +0.9% June 2021 CPI Print

### Biggest drivers:

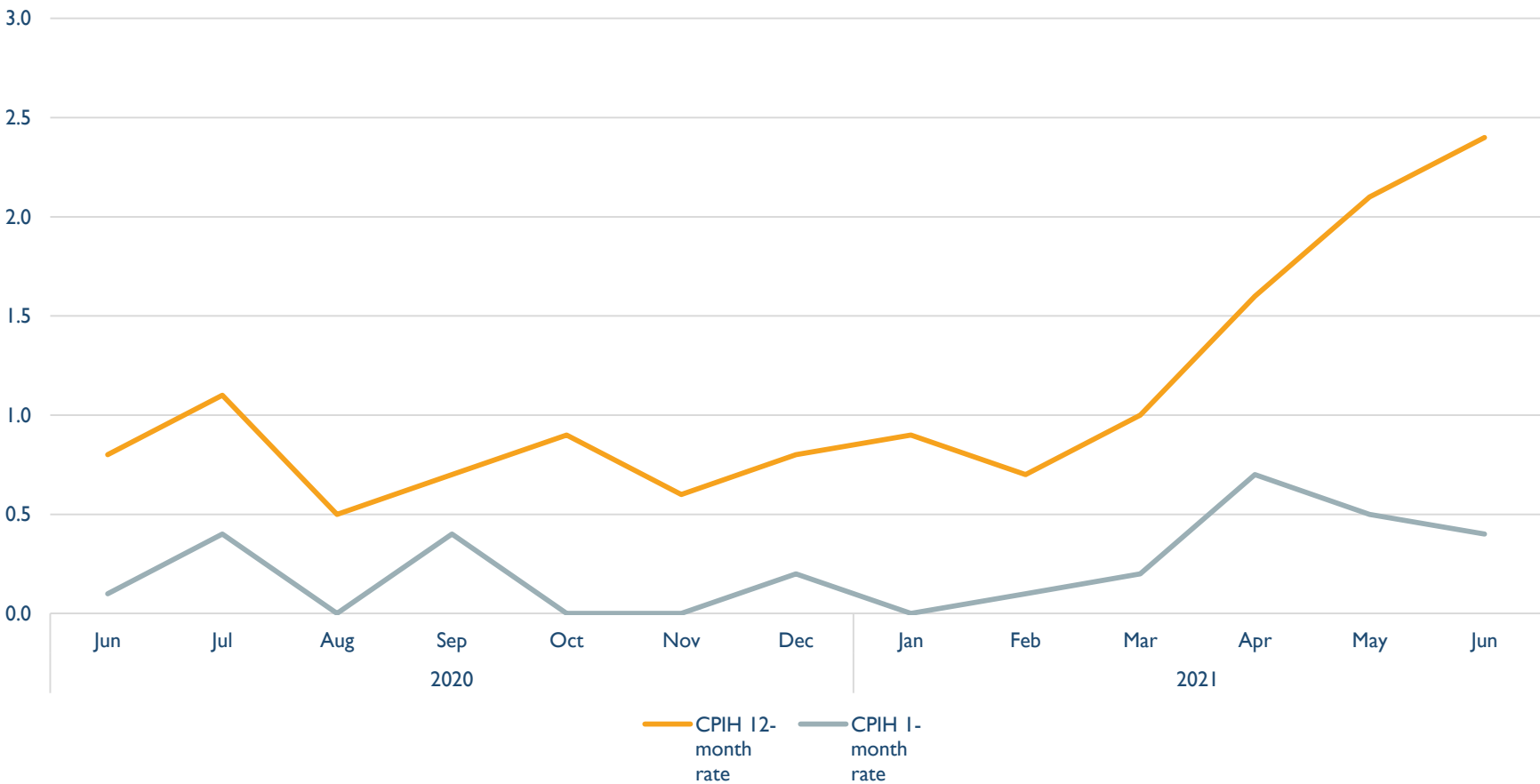
- +10.5% used cars (3.16% weight), 45% yoy
- +2% new vehicles (3.7% weight)
- +5.2% car and truck rental (0.19% weight)
- +7.0% lodging away (0.98% weight)
- +7.9% hotels, motels (0.86% weight)
- +0.5% rent of shelter (32.7% weight)
- +1.5% transportation services (5.3% wgt)
- +0.7% apparel (2.7% weight)
- +1.5% energy (7.07% weight)

### Biggest laggards:

- Medical care commodities -0.4% (1.5% wgt), medical care services 0% (7.1% wgt)

# INFLATION – UK CPIH MODERATING M-O-M

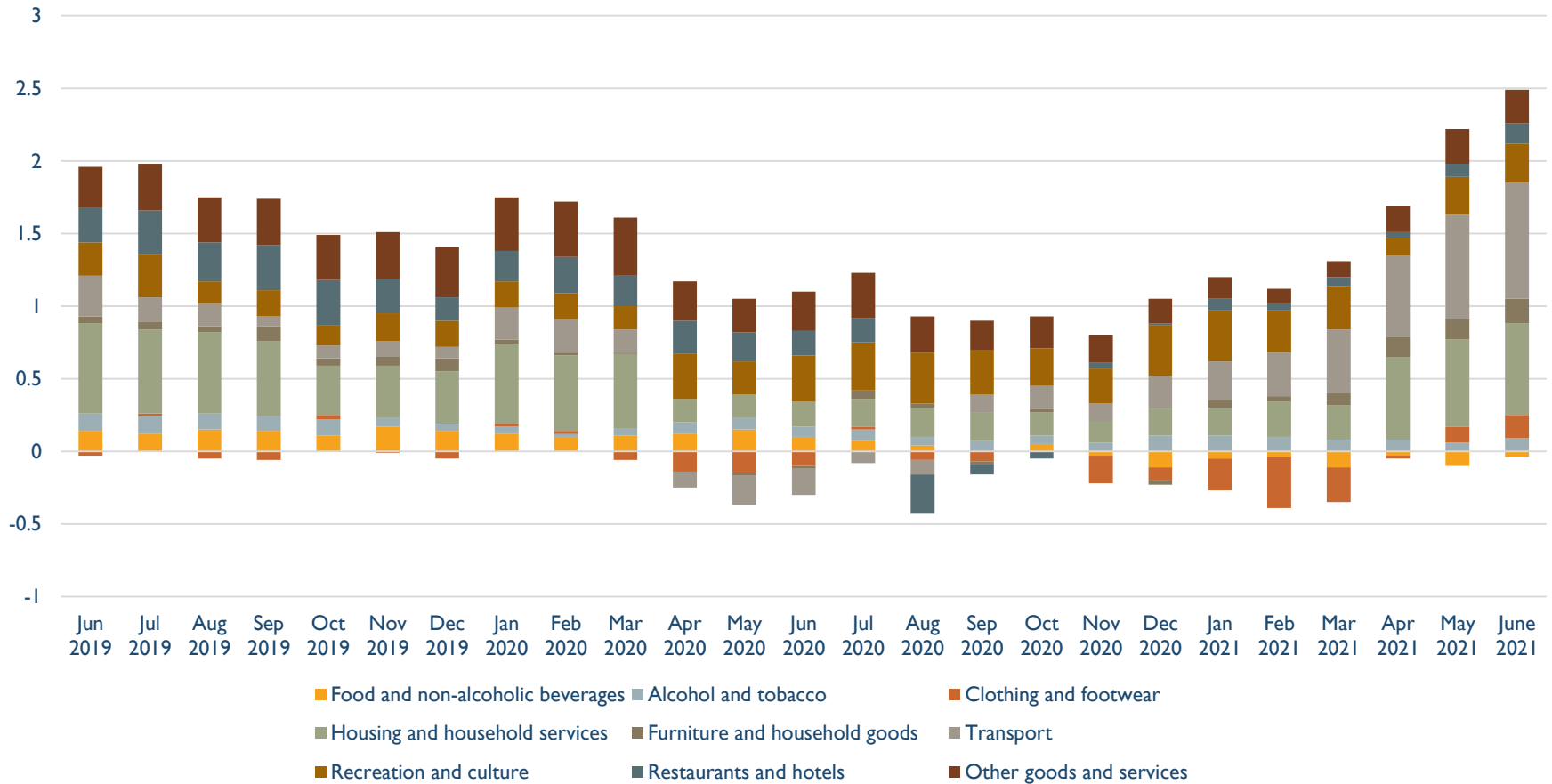
UK CPIH 1 month rate is moderating at slower growth



Source: Office for National Statistics

# INFLATION – UK CPIH ACCELERATING Y-O-Y

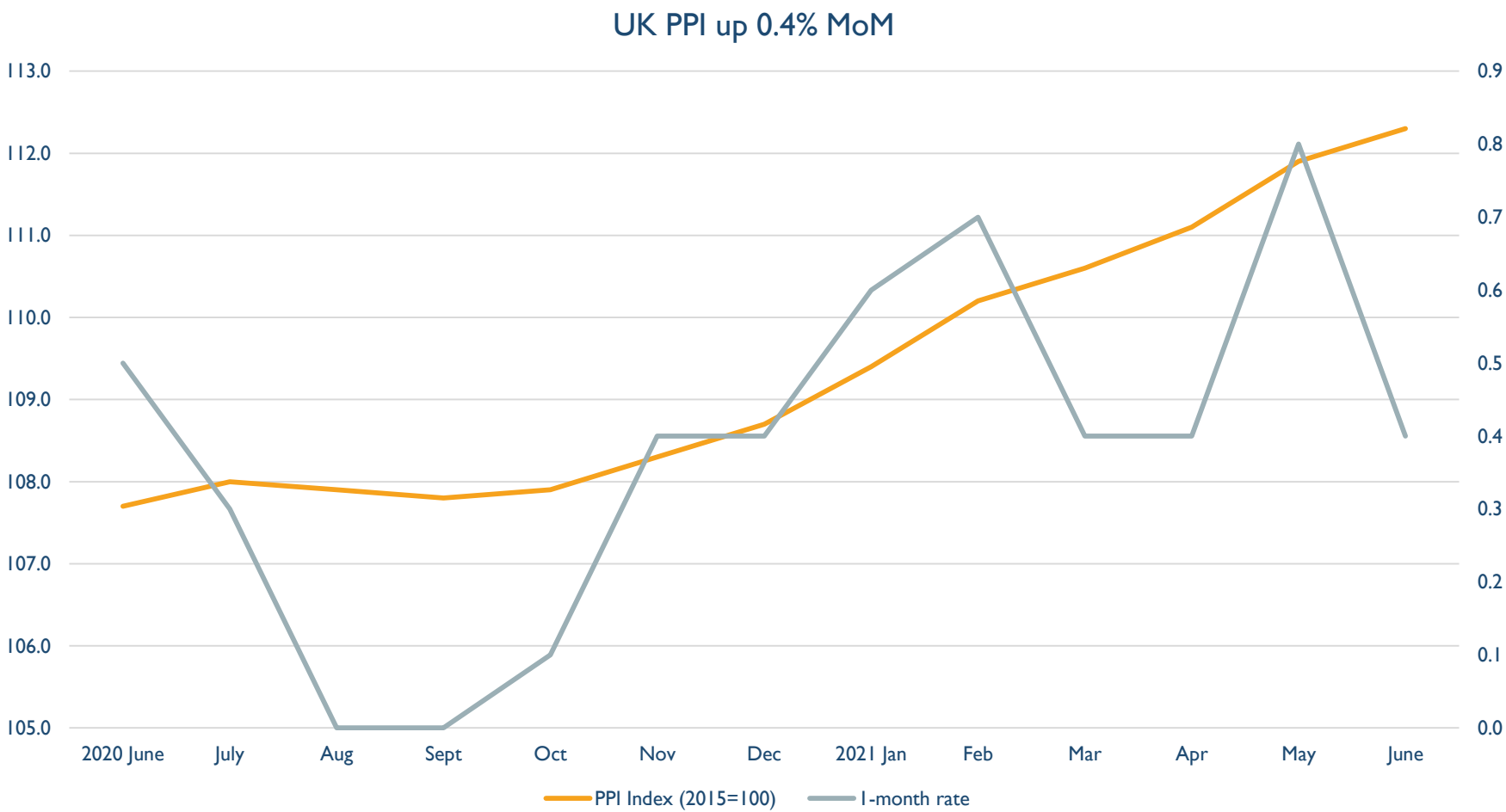
UK Consumer Price inflation driven by Housing and Transport lately



Source: Office for National Statistics



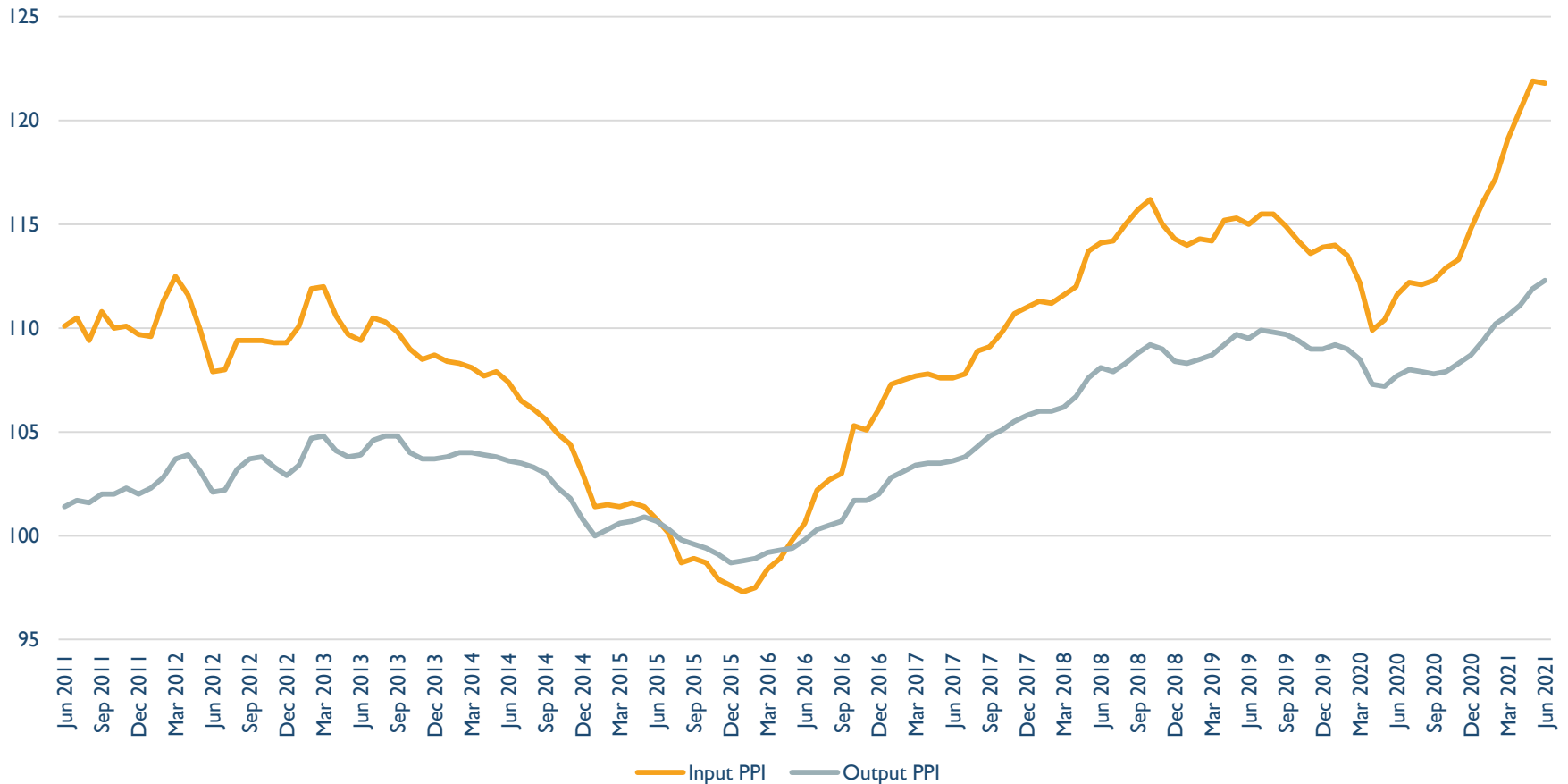
# INFLATION – UK PPI MODERATING M-O-M



Source: Office for National Statistics

# INFLATION – UK PPI INPUT PRICES DECELERATE

UK input prices stalling, while output prices are catching up

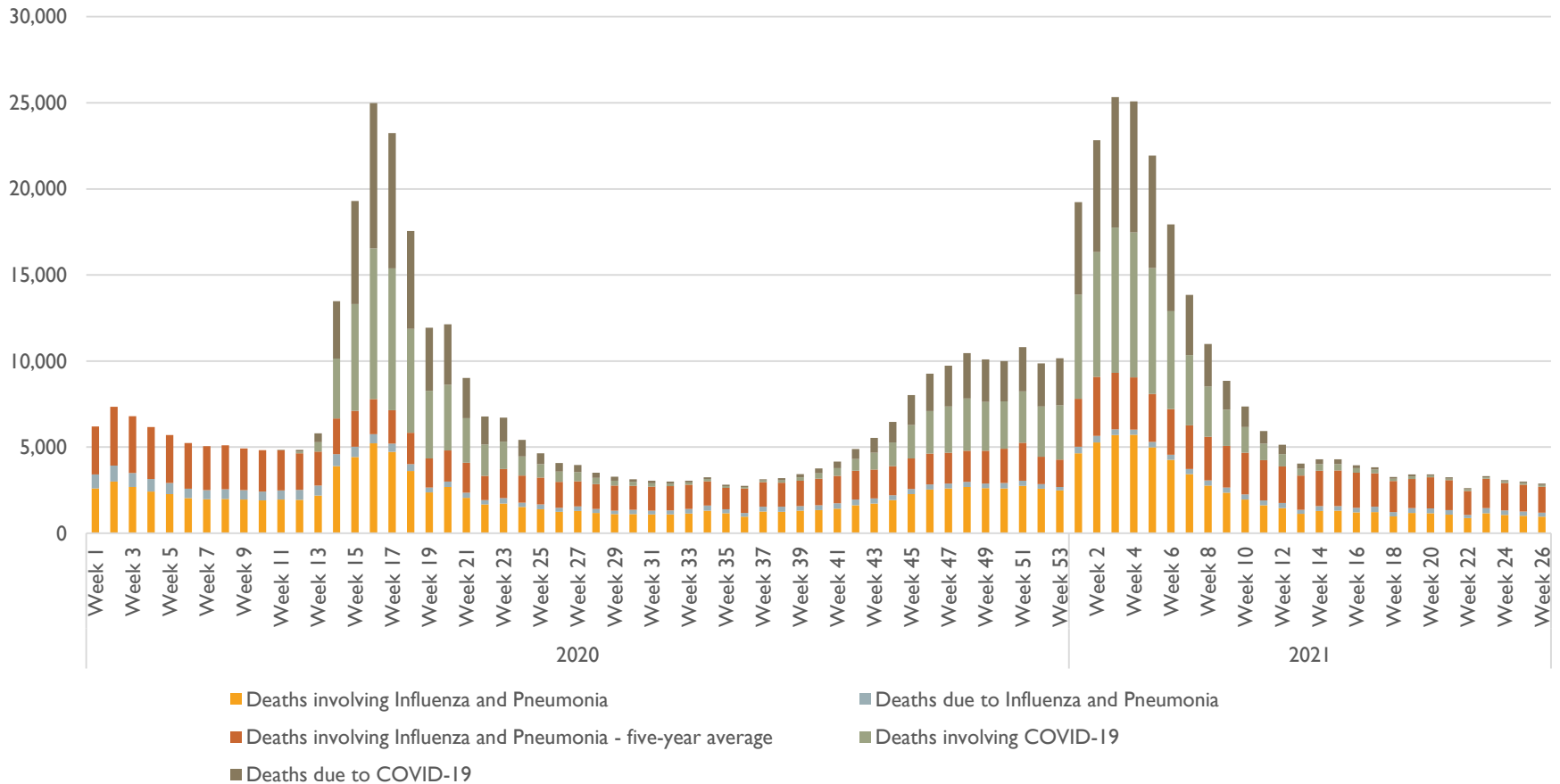


Source: Office for National Statistics

### 3. KEY MARKET CONCERN: DELTA VARIANT

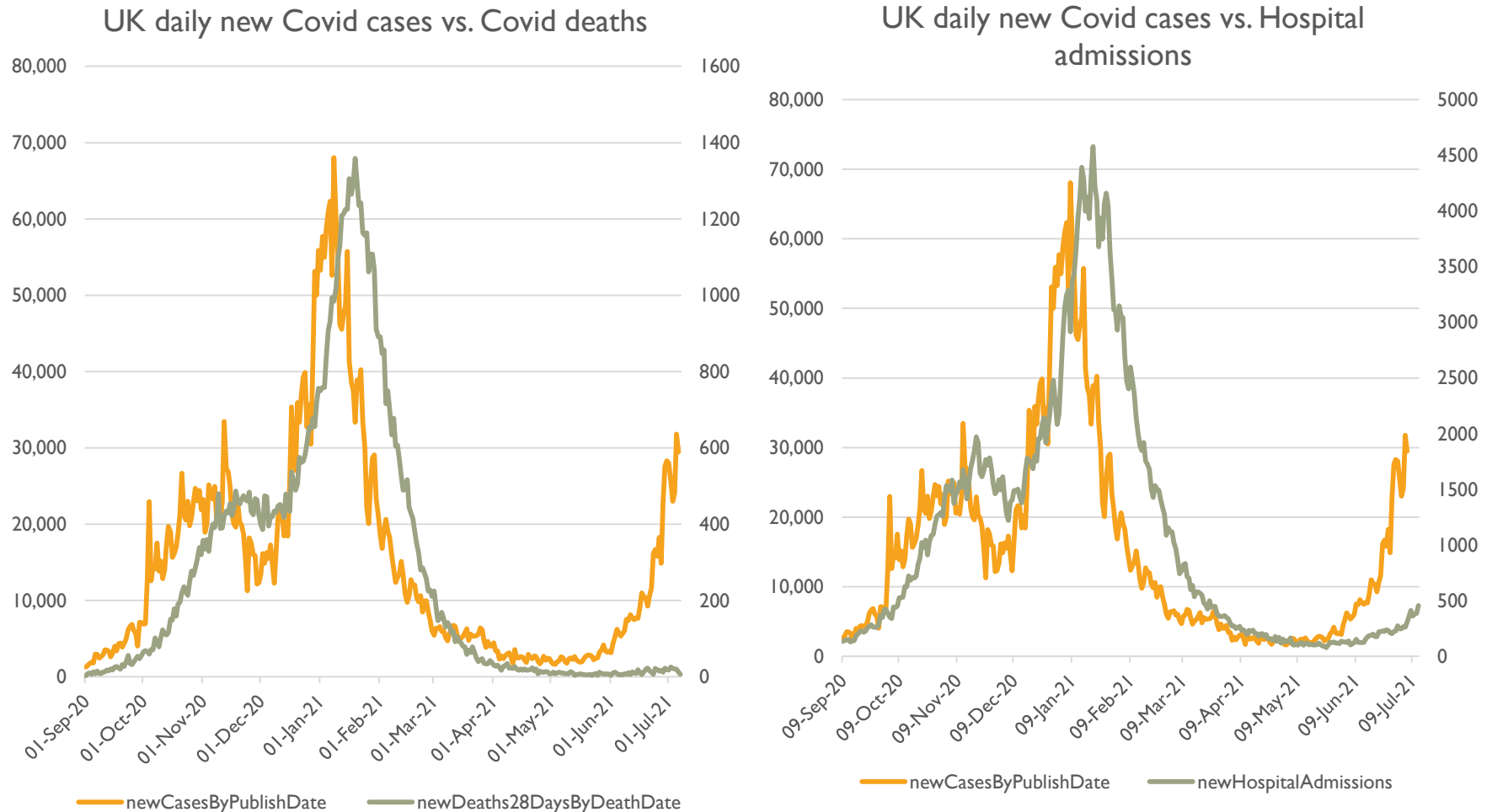
# DELTA VARIANT – UK REOPENING DANGER TO UK?

England combined COVID-19 and Influenza deaths are below 5yr Influenza deaths average



Source: Office for National Statistics

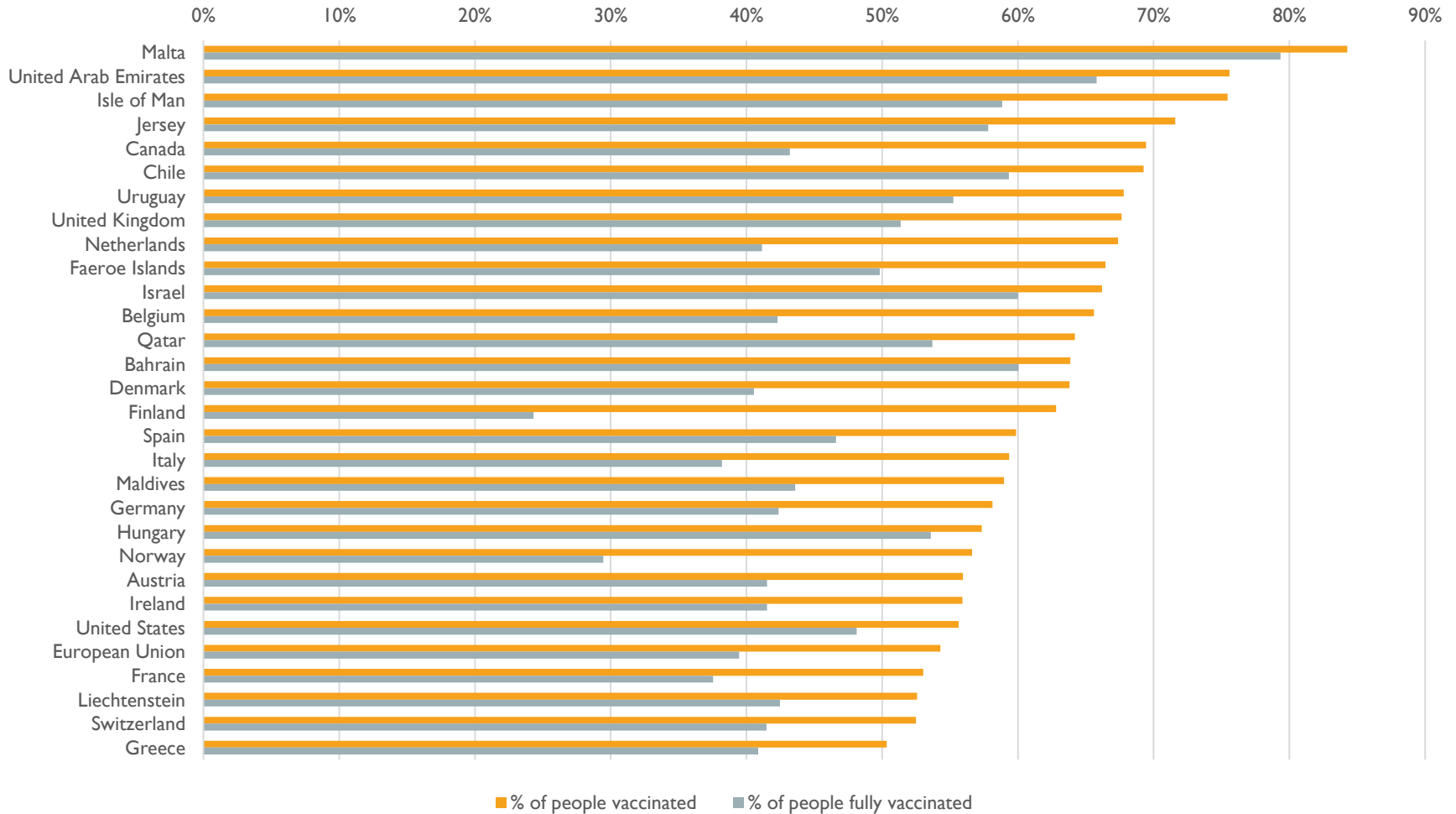
# DELTA VARIANT – UK REOPENING NO DANGER TO UK



Source: Public Health England

# DELTA VARIANT – UK REOPENING DANGER TO WORLD

UK is amongst the best vaccinated countries

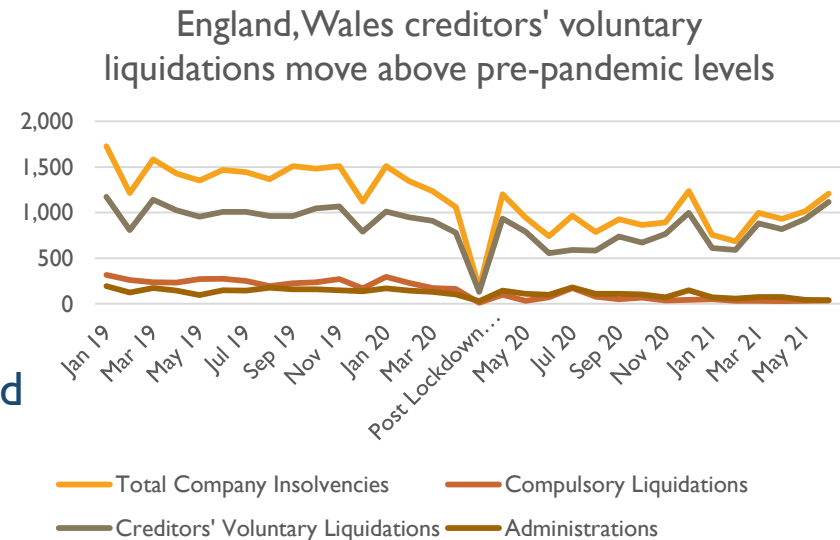


Source: Our world in data

## 4. WHERE TO FIND VALUE

# HIDDEN GEMS – INSOLVENCIES & CREDIT DEMAND

- Manolete Partners
  - UK litigation financing firm
  - 67% market share of 20% TPF market
  - £100mio market cap (£8mio debt)
  - Cases have 1yr lag
  - Litigations have been artificially low
  - Backlog of cases is higher than completed
  - 168% ROI, 132% IRR



- Secured Trust Bank
  - Small online focused bank with 55% business financing, 45% retail
  - £205mio market cap
  - Expect profits to be around £40mio
  - Don't expect Coronavirus related impairments to last
  - JPM and GS actively moving into UK retail banking – take over target?





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[www.aozorastep.com](http://www.aozorastep.com)

[david@aozorastep.com](mailto:david@aozorastep.com)

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